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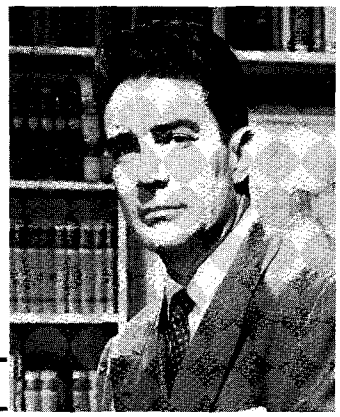

DAN SMOOT

WITHHOLDING TAX—PART I

On March 28, 1962, U. S. Representative Wilbur Mills (Democrat, Arkansas, Chairman of the House Ways and Means Committee) arose in the House to move for consideration and passage of HR 10650, the Administration's Revenue Bill of 1962. The Bill contains 21 sections, written in garbled bureaucratese which defies understanding except by persons with years of training in the deciphering of such jargon.

U. S. Representative Bruce Alger (Republican, Texas) correctly characterizes the Administration's Revenue Bill of 1962 as part of a deliberate design being "masterminded" for the purpose of destroying American private enterprise.

Investment Credit

One provision of the Revenue Bill (HR 10650) permits business firms to deduct, as a tax-exemption, 7 percent of everything they spend for new equipment and production facilities. This is a tax subsidy which, as usual, will provide the most benefit to the biggest corporations. It discriminates against firms which have managed, without subsidy, to keep their plants modern. It discriminates against all taxpayers whose occupations do not require investment in equipment and facilities; and it will encourage waste, extravagance, inefficiency: many business firms will invest in equipment they do not need at all, or could get by very well without, just in order to get the tax credits.

Withholding Provision

The Revenue Bill of 1962 is almost wholly bad. But the very worst part of it is the provision for withholding income tax on investment, dividend, and interest earnings.

The principal argument *for* the withholding provision is grounded in a rationale which sounds like pure communist hate propaganda against the system of private capitalism: *Wage earners (that is, "workers") have federal income tax taken out of their paychecks;*

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then why shouldn't those whose income is in the form of interest, and return on investments (that is, non-working "capitalists") have the tax taken out before they get their money?

This argument is the refrain and central theme of Congressman Wilbur Mills' speech to the House in support of the Revenue Bill on March 28, 1962:[1]

"We went on record as believing that the provision for withholding the tax at the source on dividends was just as appropriate to help collect taxes as was the withholding of the tax on salaries and wages. . . . This is not the imposition of a tax any more than the withholding of taxes at the source on salaries and wages was the imposition of a tax. . . .

"I cannot justify any longer refraining from imposing a withholding tax against those people who have income and dividends. . . . If you vote to refrain from imposing withholding on interest and dividends, I would like you to justify a continuation of withholding on salaries and wages. . . . I do not think we can justify different treatment of dividends and interest. . . . The only way that I know that it can be justified is to say that there is something so sacrosanct about dividend income or about interest income that we are unmindful of the fact that there is a way that we can collect the taxes that are due on them and which we are not now using."

The clear implication of Mr. Mills' remarks is that American taxpayers are divided into two rival classes: (1) "workers" who pay all of their tax, because the tax is withheld before they get their paychecks; and (2) bloated "capitalists" who do nothing but rake in "unearned" income on investments and manage to evade payment of income tax on their great earnings because the tax is not withheld before they get their "unearned" money.

The truth is that "workers" in America are the "capitalists" who own most of the savings accounts and stocks in corporations.

It is officially estimated that at least 500 million interest and dividend accounts will be affected by the new withholding law.[2]

An overwhelming majority of these 500 million accounts belong not to rich people but to people of very modest means — to "workers," whose federal income taxes have already been taken out of their salary checks; and to retired elderly people whose savings and investments represent a lifetime of thrift, hard work, personal sacrifice, and preparation for a meager retirement income — and who will not even owe the tax withheld from investment-dividend-and-interest incomes.

Bureaucratic Monstrosity

In fact, *most* (possibly as much as 90%) of the federal tax withheld from earnings on interest, dividends, and investments will have to be refunded to the individuals from whom it was withheld: that is, if the individuals involved have enough information, daring, time, and patience to file claims for refunds.

If the individuals do not know how to file claims for refund, or are afraid of committing some technical error that will get them in trouble with the Internal Revenue Service, or cannot afford the time and bother of claiming refunds, then the government will keep the taxes taken away from them, which they do not owe.

Consider the case of a young couple whose total income from wages is $3000.00 a year. Through the years, at great personal sacrifice, they manage to save $1000.00, which they put in a banking institution, where it will draw interest and ultimately provide an educational fund for their children, or a little capital for retirement investments in later years.

This one-thousand-dollar savings account earns $40.00 of interest per year; but, under the new withholding tax, their bank cannot credit their account with $40.00 of earned

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interest. The bank credits them with $32.00, and sends $8.00 to the Internal Revenue Service as income tax withheld on interest earnings. The young couple do not owe that $8.00 in taxes. Their federal taxes have already been taken out of their paychecks. In fact, the federal government has probably already taken out of their paychecks *more* tax than they owe. Every year, the federal government "over-withholds" — that is, takes more tax out of paychecks than is legally due — from 40 million wage earning taxpayers.

The young couple not only do not owe the $8.00 which the bank was forced to take out of their little savings account: they do not even know that it was taken out, unless they are well-informed about, and thoroughly understand, the complicated tax law. If they know enough about the new law to realize that money, which they did not owe, was taken out of their savings account for taxes, they will realize that they have a refund coming; but they won't know how much. No one ever tells them how much was taken out of their savings account. They have to be sufficiently expert on tax law and accounting to calculate it themselves, before they can file a claim for a refund.

How many taxpayers will know enough, or dare, or have the time to bother — in order to get back $8.00 which the Internal Revenue Service compelled their bank to take out of their savings account for taxes they did not owe?

Conservatives and constitutionalists in Congress, who opposed this frightful withholding tax provision, stressed, among other things, the costly bureaucratic complications. Advocates of the Bill said it was quite simple. United States Representative Eugene J. Keogh (Democrat, New York) explained the utter simplicity of the new law. Using the same typical case I have used (that is, a taxpayer whose little savings account was robbed of $8.00 for taxes) Congressman Keogh showed how simple it is for the taxpayer to determine how much was taken out and whether the amount was too much. Mr. Keogh said:

"Some people have assumed that this is complicated procedure but this is not the case. Consider a bank that presently pays interest of 4 percent. Once withholding becomes effective, in computing the interest to be added to any passbook, it would simply use 80 percent of this, that is, it would credit interest at a rate of 3.2 percent, or $32 on a $1,000 deposit.

"The individual [that is, the taxpayer from whom the $8.00 was taken] need only divide this by 4 to find that $8.00 is the amount of interest that has been withheld. He would add this to the $32 reported as gross interest income and he would take credit for the $8 as the portion of his final tax liability that has already been paid, just as he takes a credit for taxes withheld on wages."[3]

It would be interesting to know whether Congressman Keogh really thinks he knows what he is talking about.

In a way, though, Congressman Keogh is right: the problem which the young couple have (of calculating how much interest-income tax was taken out of their savings account; of determining whether this was too much; and of getting back the amount which should not have been taken out) is *relatively* quite simple — when compared with the problem of a retired elderly person whose retirement income is derived from a lifetime of savings and investments.

This elderly person has an annual income of $2000.00 from a large number of small savings accounts and investments and bonds and stocks accumulated through the years. He may get a total of $30.00 a year in dividends on a few shares of stock he bought in one company during his working years; a total of $6.00 for a share of another stock; $10.00 a year on bonds bought years ago; and so on. It is not improbable that such a person will receive 100 different dividend, interest, or investment earnings checks (from 100 different sources). All of them total $2000.00. With

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his legitimate exemptions and deductions, the taxpayer may not owe any federal tax at all on that $2000 a year of income.

But, under the new withholding law, each of the 100 firms where he has small holdings must deduct 20% of his earnings for federal income tax. The taxpayer must examine all 100 of his little accounts, and apply to them the calculation formula (which Congressman Keogh explains, in the quotation above) to determine how much money has been taken away from him, so that he can claim refund of the 100 withholdings.

Congressman Mills, explaining that all of this would not really work any hardship on taxpayers, pointed out that the taxpayer will not need to wait until the end of the year to get all of his money back: under the new withholding law, the taxpayer can file claims for refund four times a year and get his money back on a quarterly, rather than on an annual, basis.

Administration advocates of the new withholding tax proposal estimate that it will produce a total of 650 million dollars a year in new revenue. It is obvious that the Internal Revenue Service will spend most, if not all, of that amount on the stupendous job of processing remittances from 500 million accounts and then refunding hundreds of millions of tax deductions that never should have been made in the first place.

Compensating the Slaves

There is no way to estimate the millions of dollars of additional bookkeeping costs this law imposes on business firms which must make the withholdings and the remittances to the Internal Revenue Service.

Congressman Mills, admitting that the law "does impose some additional burden" on the business institutions thus forced into involuntary, and unpaid, servitude as tax-collectors for the federal government, says the business firms will be partially compensated by "provisions in this bill to allow these institutions to hold over for a little longer period of time the amount of money involved as partial compensation for these costs imposed."

The law partially compensates business firms for the costly involuntary servitude imposed on them — by letting them use money confiscated from citizens who did not owe what was confiscated.

Aiding the Crooks

Congressman Mills dismisses complaints about the preposterous features of the withholding provisions of the Revenue Bill by saying that the millions of people, who have small savings and investment incomes that do not produce enough income to be taxed, can get exemption from the withholding tax by *merely claiming exemption.* Congressman Mills says:

"The proposal . . . has been changed . . . to provide for the complete elimination from the withholding on the accounts of those 18 and younger. . . .

"In addition to that, with respect to bank interest, E-bond interest, and dividends, in this bill we are saying, Mr. Chairman, that there will be no withholding applicable to any individual over 18 years of age who says to the paying institution that 'I do not reasonably expect I will owe a tax on the receipt of this interest or dividend.' Anybody over 18 years of age can say that and there will be no withholding of tax."(4)

After this remarkable statement, Mr. Mills goes on to say that the purpose of the new withholding law is to strike at dishonest persons who have investment earnings on which they should be paying tax but who do not report and pay on such income. Mr. Mills says:

"It is not true, as so many have tried to make you believe, that the bill requires withholding on widows and orphans who owe no tax. . . . But, we are, Mr. Chairman, stepping on the toes of those individuals who are not reporting this income. We are requiring them

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under this provision to pay the tax that the laws of the country say they are supposed to pay."

Mr. Mills says the bill is aimed at dishonest persons; but he also says that *any* person who claims to be under 18 can get exemption by merely saying he is under 18; or, *any person* who admits to being over 18 can get exemption by merely saying that he does not owe any tax on his investments income.

Mr. Mills does not mention any penalties against persons who dishonestly claim such exemptions: he just says that *anybody* who says he does not owe a tax will be exempt from the withholding.

But even if the law did provide severe penalties against dishonest claims for exemption, how could the penalties be enforced? It would require a costly investigation of every claim for exemption to determine whether it is honest or not. Can the government economically spend thousands of dollars to collect an additional 15 or 20 dollars (or less) from every taxpayer who may, dishonestly or in innocent error, claim an exemption he is not really entitled to?

Actually, it is easily possible, and very probable, that under the Revenue Bill of 1962, dishonest persons will get refunds, from the Internal Revenue Service, of money that was never taken away from them. Congressman Bruce Alger says:

"No record will be made of this withholding. The individual will get no receipts for the amounts withheld. Obviously, it will be impossible for the Treasury to make any record of the exemption certificates which may be filed.

"For those few who may wish to cheat, the withholding provision is no deterrent. In fact, under this provision they could obtain refunds of taxes which they did not pay. The Internal Revenue Service will have no records to show which accounts on which there has been withholding and which accounts were exempted."[5]

It is obvious that the withholding provisions of the Revenue Bill of 1962 will not catch one dishonest person not already being caught, but will encourage dishonesty by providing rich and safe opportunities for false exemption-claims and false claims for refunds.

Indeed, to anyone with a grain of sense, it is obvious that the withholding provisions of the Revenue Bill of 1962 *will help no one but dishonest persons.* The Bill will not help the Treasury Department get more net tax revenue, because, even if the Internal Revenue Service does not spend millions on investigations of false claims for exemptions and refunds, the Service will spend almost all it gets from the new withholding law on the job of processing 500 million withholdings and then refunding hundreds of millions that should not have been made.

Hurting the "Little" People

The new withholding law will impose grievous (in some cases, crushing) new burdens on business firms forced to perform, without pay, an additional gargantuan bookkeeping job for the federal government.

The relatively few people who do have large incomes from dividends, interest, and investments will be additionally burdened with costly inconvenience; but they won't be seriously hurt. Very few of these people are stupid enough to cheat on their federal income tax by trying to conceal sources of income that are a matter of record. So, the new withholding law will not make a vital difference to them. They have to hire accountants and tax experts to make out their complicated tax returns every year anyway.

Moreover, the amount withheld for tax from investment earnings (20%) is less than what most wealthy taxpayers will owe at the end of the year. Wealthy taxpayers (like all others whose federal taxes are deducted "at the source") are hurt by having money taken

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away from them for tax payments that are not due until several months after the deductions are made. But, at least, the wealthy taxpayers will not have money *withheld for taxes they never will owe* (as will be the lot of millions of low-income taxpayers) — money which they badly need for current expenses.

In short, the people most grievously hurt by the Kennedy Administration's Revenue Bill of 1962 are the "little people" whom new frontiersmen claim they want to help.

Public Revolt

On March 29, 1962, the House, by a roll-call stand of 224 to 202, passed the monstrous Kennedy Revenue Bill of 1962 (HR 10650). See this *Report*, "Vital Votes in Congress," April 23, 1962, for the complete House roll-call.

Administration forces were jubilant. The Revenue Bill had passed the House and needed only to be approved by the Senate, before the President could sign it into law. Prospects were extremely bright, because the Senate is generally considered much more "liberal" than the House — inasmuch as Representatives, having to stand for re-election three times more often than Senators, are generally closer to the people; and the people of America are basically conservative.

Moreover, the conservative American public seemed quite asleep and indifferent when the House passed the Revenue Bill of 1962. But word slowly got out; and the sleeping giant which is the American public began to awaken to the significance of the monstrous tax Bill already passed by the House and lying in the Senate for final action.

By mid-April, 1962, the body politic was stirring uneasily. By the third week in April, the uneasiness was becoming anger; and the Senate of the United States was being flooded with taxpayers' protests.

Here are passages from a story distributed from Washington by the *Chicago Daily News* Service on April 21, 1962:[6]

"What looks like the biggest blitz of mail of the current congressional session — and one of the largest in recent years — is piling up in the U. S. Senate.

"It's coming from citizens, all over the country, who oppose extension of the withholding tax system to income from dividends and interest.

"The nationwide letter writing campaign is causing deep concern in the Treasury Department, out of fear that it may damage prospects for President Kennedy's tax revision program.

"Sen. Paul Douglas (D-Ill.), for example, reports that he got 5,000 letters in one day last week — 99 per cent of them opposing dividend and interest withholding.

"No one in the office remembers when an equal number of letters came in on a single subject in one day.

"Senate Majority Leader Mike Mansfield's (D-Mont.) office reports the same sort of deluge and the office of Sen. Norris Cotton (R-N.H.) says twice as much mail is coming in on this subject as on any other.

"Treasury officials say they, too, are being swamped."

What to Do

The Revenue Bill of 1962 (HR 10650) provides an easy and immediate answer to a question which millions of American constitutionalists are asking: *What can I do?*

You can help stun the United States Senate with demands that the Senate refuse to pass HR 10650. There is a great deal more that

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you could and should do. But let us, on this issue, do first things first; and do them right. Our first and most urgent need is to persuade the United States Senate not to pass HR10650.

The Withholding Tax law, requiring employers to deduct income tax from wages (passed as a World War II "emergency" measure in 1943, and never repealed), is just as unconstitutional and, in fundamental ways, just as objectionable as the withholding proposals in HR 10650. Indeed (as you can see in the remarks of Congressman Wilbur Mills, quoted earlier in this *Report*) the old withholding tax on wages is used as the primary justification for the new withholding proposals.

Here is a perfect example of how socialists operate: under the cry of emergency, they impose an unconstitutional program — which the people quietly accept, because of the emergency, and adjust themselves to, before the emergency passes. After the unconstitutional program has seasoned for a while — has become an "accepted," "popular," and "traditional" system — it is then used as justification for more of the same kind of socialism.

The people, having (by quiet acceptance) approved an unconstitutional program, often find it difficult or illogical to oppose extension of the same program.

Next week, we will discuss the general Withholding Tax law in detail, mentioning many important reasons why the law should be repealed, and suggesting specific action toward that end.

Those of you who have been touched, to the point of wincing, with the "liberal" bromide about constitutionalists being "always against something, never for anything" — rest assured: before we have finished the current discussion of tax problems, we will make *positive* recommendations *for* an equitable federal tax system.

For the moment, however, as was remarked earlier, let us take first things first, and do each thing right.

If you were in a car traveling at high speed toward a washed-out bridge, you would need first to take the "negative" action of stopping the car, before taking the "positive" action of turning it around and heading it in another direction.

Before we try to persuade Congress to repeal the Withholding Tax law already in existence; and before we start working for a desirable federal taxing system, let us — this week — concentrate on burying the United States Senate under an avalanche of mail, demanding that the Senate refuse to pass HR 10650, Kennedy's Revenue Bill of 1962. Speed is vitally important.

Here, specifically, is what you can do — and what you should do — as soon as possible; the *how much* depends on your circumstances; the *what* seems obvious:

(1) Show this *Report* — "Withholding Tax — Part I" — to as many other people as possible; try to get them to read it; or read portions of it to them; and discuss it.

(2) Order, and distribute to others, extra copies of this *Report* — or of any other correct and readable analysis of the withholding provisions of HR 10650.

(3) If you belong to any club or discussion group, take, or make, any possible opportunity to bring up this issue of the withholding proposals in HR 10650; try to get the club, as a group, and all members as individuals, sufficiently interested to get copies of this *Report*, or of comparable material, for study and further distribution.

(4) Try to get other individuals to do the same thing, among their acquaintances and in their clubs, that you are doing in yours.

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(5) In connection with all of this "educational" activity, urge action on the part of everyone you can reach.

(6) The action should be a letter, from every taxpayer in the United States, to both of his United States Senators in Washington, urging the Senators to vote against HR 10650, the Revenue Bill of 1962.

(7) Anyone who does not know the names of the two United States Senators from his state, can find out by calling any local library or newspaper office. All U. S. Senators can be addressed by name, at the Senate Office Building, Washington, D. C.

(8) Letters to the Senators should be sensible, restrained, and brief. Do not browbeat or accuse the Senators. Do not wear them out with long letters that busy men do not have time to read. Do not worry about grammar, or spelling, or arrangement. Make your letters easy to read, and write them in your own words. Tell your Senators that you object to HR 10650 for many reasons, but that your main objection is to the withholding provisions.

(9) Do not make the mistake of calling the proposed withholding a "new tax." This will give Senators who favor the proposal opportunity to "explain" to you that it is not a new tax at all: it is merely extension of an already-accepted method of collecting taxes already required by existing law.

(10) It will do no good to tell your Senators that the new withholding proposal is unconstitutional, because most Senators think (erroneously, in most cases) that they know more about the Constitution than you do; and they are likely to write you a letter, citing court decisions which uphold the "withholding principle."

(11) In order to let your Senators know that you know what you are talking about, you could state your objections to HR 10650 somewhat like this:

"Despite the fact that Congress tried to write exemptions and safeguards into HR 10650, I am convinced — after reading some of the statements of Congressman Mills and others who are in favor of the legislation — that the withholding provisions of HR 10650 would work a terrible hardship on millions of Americans of low or modest income, and that the provisions would cost more to administer than they would produce in revenue."

FOOTNOTES

(1) *Congressional Record*, March 28, 1962, pp. 4878 ff.
(2) Remarks of U. S. Representative Howard H. Baker (Republican, Tennessee) p. 4883, *Congressional Record*, March 28, 1962
(3) *Congressional Record*, March 28, 1962, pp. 4885-4886
(4) *Congressional Record*, March 28, 1962, p. 4879, column 1
(5) *Congressional Record*, March 28, 1962, p. 4913, column 3
(6) Published in *The Dallas Times Herald*, April 22, 1962

WHO IS DAN SMOOT?

Dan Smoot was born in Missouri. Reared in Texas, he attended SMU in Dallas, taking BA and MA degrees from that university in 1938 and 1940.

In 1941, he joined the faculty at Harvard as a Teaching Fellow in English, doing graduate work for the degree of Doctor of Philosophy in the field of American Civilization.

In 1942, he took leave of absence from Harvard in order to join the FBI. At the close of the war, he stayed in the FBI, rather than return to Harvard.

He worked as an FBI Agent in all parts of the nation, handling all kinds of assignments. But for three and a half years, he worked exclusively on communist investigations in the industrial midwest. For two years following that, he was on FBI headquarters staff in Washington, as an Administrative Assistant to J. Edgar Hoover.

After nine and a half years in the FBI, Smoot resigned to help start the Facts Forum movement in Dallas. As the radio and television commentator for Facts Forum, Smoot, for almost four years spoke to a national audience giving both sides of great controversial issues.

In July, 1955, he resigned and started his own independent program, in order to give only one side — the side that uses fundamental American principles as a yardstick for measuring all important issues.

If you believe that Dan Smoot is providing effective tools for those who want to think and talk and write on the side of freedom, you can help immensely by subscribing, and encouraging others to subscribe, to *The Dan Smoot Report.*

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